Impressions of the Wisconsin Life Fund

Paper read before the Association of Life Insurance Counsel, December 3, 1918, by Henry Franklin Tyrrell, Librarian of The Northwestern Mutual Life Insurance Company of Milwaukee, Wis.

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Wisconsin was the first State in the Union to engage in the level premium life insurance business.

During a session of its legislature in 1911, a bill was introduced to establish a so-called Life Fund which provided the machinery for the conduct of a limited and restricted life insurance business without liability on the part of the State.

The introduction of the bill created hardly a ripple of attention, excitement or comment. Its progress through the intricacies of legislative rules to final passage was taken tranquilly by those who held that the State ought to assume all activities which affect large numbers of its constituent members, and apathetically by those who still adhered faithfully to the doctrine that the State ought not to do for an individual or a group of individuals what they can do equally well for themselves.

And so this creature of a legislature was born and named the Wisconsin Life Fund. Since its adoption, bills which were practically verbatim copies of the Wisconsin law have been introduced in the legislatures of a dozen States and in not a single one has the bill merged into an act.

The United States has since gone into the life insurance business as a war measure but whether or not it will so continue, remains to be seen. Whether or not it should, is a fair question.

It is not the present intent to debate that question but merely to put down some impressions of the *Wisconsin* Life Fund. If these are flexible enough to apply to the national question in any way, the circumstance is incidental.

WISCONSIN LIFE FUND.

Chapter 577 of the Laws of Wisconsin for 1911 establishes a "*Life Fund,*" *to be administered without liability on the part of the State* beyond the amount of the Fund, *for the purpose of granting life insurance* and annuities *to persons* who at the time of granting such insurance and annuities are *within the State* or residents thereof.

This law was amended as to administrative details by Chapter 291 of the Laws of 1913. Citizens seldom read laws. They receive impressions of what they provide from many sources. Comparatively few residents of Wisconsin know that there is such an institution as the Wisconsin Life Fund, but a plurality of those who do know it, think the State is engaged in the life insurance business as principal, whereas the fact is the State is merely an administrator. They think the State is financially responsible for the solvency of the Fund, whereas it is nothing of the sort. But the illusion has been created in some way and even the style of policy emphasizes the misconception. The words "The State of Wisconsin" and "Doth Insure" appear boldly, while the phrase as to limited liability is shrinkingly modest.

Why the "limited liability"? Because of the sterling characters who drafted the State constitution. They had vision and prescience. They may have foreseen even the exigencies of modern legislative genius. At any rate they threw around the State a steel band of protection. They provided, among other things, that no debts should be contracted for works of internal improvement; that the rate of taxation should be uniform; that no money should be paid out of the treasury except in pursuance of an appropriation by law; that the credit of the State should not be extended for the benefit of individuals, associations or corporations; that the State should never contract public debts except as provided in the constitution; that an annual tax sufficient to defray the estimated public expenses should be provided for; that the public debt should not exceed $100,000 and that a vote of both houses of the legislature by yeas and nays should be taken on the passage of such a law, and that all appropriation bills must be passed by a yea and nay vote by a three-fifths majority.

But what is the constitution between politicians and certain legislators?

The proponents of State life insurance wanted a law on the books. They would attend to the constitution a little later. So they first got the law and then paved the way to legal sanction by the adoption of two proposed constitutional amendments, one permitting insurance by the State and providing that the State might grant annuities with an annual

accounting, etc., and the other permitting the State to provide for State insurance.

These amendments were craftily worded. One differs from the other only as to the comparatively unimportant features of annuities. They were put upon the official ballot with eight other proposed constitutional amendments in the deliberate hope that if one failed of ratification the other might go through —a characteristic manifestation of alleged political shrewdness, which poorly measures the depth of public intelligence.

What the proponents of these amendments really wanted to accomplish was the destruction of constitutional barriers to the wide opening of the gates through which the State might enter into the business of life, fire, casualty and indemnity insurance. They were willing to plunge the State headlong into these great activities, with all the possibilities of bad management, financial loss and liability for vast sums, all dictated and controlled by a political bureau at a State capital!

It was a gripping altruistic dream, in which compulsory insurance appeared to go happily hand in hand with political preferment; but, in fact, ratification of the amendments meant ultimate taxation for the support, in part, of a political hierarchy under the disguise of a public function. It meant invasion of private rights and the destruction of the great fraternal benefit system of this country—an incidental feature of either State or national insurance which must be reckoned with in considering the subject.

For once, at least, the great "common people" of Wisconsin, in whose name professional politicians have often invoked consideration of men and measures, failed to be fooled. They assaulted and battered the amendments unmercifully. Both were defeated by 100,000 plurality and so the State continues its Life Fund with limited liability.

Now consider the open-armed hospitality of the Fund. It graciously offers its beneficence to any person in all the world who will but come "within the State," write his name on the dotted line and remain long enough to undergo the medical examination. It is more generous, even, than its legislative sponsors. They only purport to be "next friend," while they would have the State stand in *loco parentis* to the stranger within its gates! And so it stands unto this very hour, but

neither the pharisees who formerly conducted our railroads nor the more recent public servant who now relinquishes management of them, have had to issue special orders to accommodate the crowd that has rushed over the Wisconsin borders to be insured in its Life Fund!

IN RE MANAGEMENT.

We will not take the time to go through the law seriatim. The process might be interesting but it would become tiresome. In passing, we will take up a few features. The first is the provision as to management.

The Commissioner of Insurance is the general manager and all around official force of the Fund and the State Treasurer custodian of its securities. These two, with the Secretary of State and Attorney General, constitute the investment committee. In other words, State officials, who are without special qualifications, who are subject to constant change by election, who may be of different political creeds and possibly personal enemies, supervise the investment of these precious funds.

Is this a good provision for one of the most important functions of the life insurance business? Is it well to place the sacred trust funds of policy-holders in the hands of office-holders for investment? One reasonably wonders how such a plan would work out practically if the Life Fund ever got big enough to radiate its potential possibilities?

AS TO BUSINESS TRANSACTED.

The sponsors of the Life Fund thought there was a great public demand for the idea. (All legislation, it must be explained to the uninitiated, theoretically is in response to some "great public demand." It has become a shibboleth for the proponents of almost every legislative bill.) The sponsors of the Fund imagined that the "common people," those constant objects of solicitation and care, would rush to this new beneficence either as a wild impulse or else as a protest against existing systems, but for some reason or other, the rushing that "they looked for, never came," as the refrain of an old song has it.

Here are some eloquent facts: The law gave the Insurance Commissioner-General Manager two years in which to get

ready for business. He did as he was bid, but it is noteworthy that while the law went into effect July 7, 1911, it was not until October 24, 1912, that the first application was received. Before the end of that year, however, by dint of earnest effort among friends and acquaintances, the management garnered a grand total of thirteen applications for $1,000 each, involving a total annual premium of $489.59, obviously a sum upon which a regular life insurance agent would either starve to death or which would cause him to quit in despair before the occurrence of that unhappy event.

Another year of earnest and presumably honest endeavor furnished a total of two hundred applications and the first born of its kind was lovingly lifted out of its confining cradle and placed squarely upon its little feet as an indication that, at last, it might try to stand alone amid the dangers, trials and vicissitudes of this wicked world.

Well, the Fund went through the year 1913 eventfully. At its end, it had 216 policies in force, aggregating $134,500 of insurance and representing a total annual income of $4,841.81. Had there been only an incipient epidemic of influenza and but five of the faithful had succumbed, the poor little State Life Fund would have gone ingloriously up the "flu"!

It is heartless to tell the story, but it should be added that of the gallant band of insurers here mentioned, 106 were members of the current graduating class of the State university and they bravely staked their lives on this great adventure. It serves no real purpose to add that the class numbered nearly 600 and the amount involved was $100 on each life. Neither does it do any good to write down that despite persistent solicitation by representatives of the State insurance department only about 16 per cent. had the temerity, finally, to go through with the ordeal. These constituted a noble little band of partisan pilgrims.

It is hardly fair to leave this feature of our impressions without frankly stating that things might have been expedited had not the Insurance Commissioner-General Manager been so busy trying to hold his office against all comers, particularly the wishes and desires of a belligerent and enemy Governor.

For some time it was necessary for the Insurance Commissioner-General Manager to actually barricade his office, not to

keep out a merry mob of prospective insurers, but to keep out anxious appointees of the Governor who sought his scalp. The courts finally stepped in and settled the difficulty, but what a strong object lesson this incident is against State management of life insurance!

RIGHT TIGHT LITTLE CONCERN.

The State of Wisconsin has chartered a right tight little concern in this Life Fund. It gives its policy-holders about as much voice in its affairs as a wobbly worm!

Old line mutual life insurance companies chartered under the laws of Wisconsin have pages of regulatory and restrictive laws directed against them on the statute books, laws intended to safeguard the interests of policy-holders and give them many rights, privileges and prerogatives. These statutes are so explicit and so comprehensive as almost to raise a presumption against the integrity of officials of life insurance companies whose sole, life job is to administer affairs to the very best of their ability.

With the Life Fund, though, it is different. Its policy-holders have nothing to say about it and administration of its important affairs is left to men who are merely passing along the political route and have many other more important (to them) things to attend to. The one, sole and only safeguard these policy-holders have, lies in those uninsured in the Fund. They elect a Governor. If he happens to be all right and happens to appoint an Insurance Commissioner who is likewise all right, then the institution will have a reasonably good general manager, but it is incongruous for people who are not interested financially or otherwise in any concern to dictate who shall be its officers and who shall run its affairs, especially as the profits, even, do not go to such people!

It is clearly unfair to existing companies to appoint any Insurance Commissioner as general manager of a competing company, no matter how honest or how efficient he may be.

The laws of Wisconsin require all other life insurance companies doing business in the State to make full and complete reports to him, to file all proposed policy forms with him and to open all their books and papers to him on demand.

This is a nice arrangement for a competitor, is it not? Especially where that competitor has the power to approve

or disapprove the kind and quality of one's goods and to approve or disapprove of one's method of doing business.

PREMIUMS OF THE FUND.

The premiums of the State Life Fund are based upon the American Experience Table of Mortality with interest at three per cent. and there is added a loading lower than the standard companies provide in their premiums for the two very necessary and important items of expenses and contingencies.

There is grave danger in this provision. It does not take enough account of mortality and expense, as to neither of which items probably can the State make as good showing as the standard companies.

As to mortality, it surely does not seem possible that the State can compete with the old established companies. It has not the same perfect system for medical examinations, and because it has no interested agents it is bound to get adverse selection from voluntary applicants.

As to expense, there is room for doubt and argument. This feature will be referred to later in this paper.

AS TO VOLUNTARY INSURANCE.

There are no regularly paid and employed agents under the Life Fund and this is one of its grievous faults.

The business of life insurance has never flourished without agents. New Zealand tried it and failed. Massachusetts came to see the folly of the idea and Wisconsin is getting suspicious.

The necessity for "new business" in sufficient amounts to maintain requisite averages is imperative, as every one familiar with the scientific side of life insurance knows, and the company or concern that has not the facilities for procuring such new business makes no forward progress.

This is shown, for example, in the experience of the Equitable Assurance Company of London which has been in existence more than one hundred and fifty years and which, without agents, has been gradually losing ground for the past seventy years. It has about $25,000,000 of assets after an existence of a century and a half in the greatest center of population in the world, and as for insurance in force, it actually has less than several American companies write every single year.

If foreign experience is not impressive, take the case of Massachusetts. In 1907 the Commonwealth adopted a plan under which banks might provide life insurance. True, it provided for agents, in a *way*, but no solicitors nor collectors were permitted. It was an attempt to carry out the idea of voluntary life insurance.

What was the result? In the first five full years that the plan was in force, a total of 6,652 persons bought life insurance "over the counter" aggregating $2,528,809. In the identical period the old line companies operating in Massachusetts issued 263,872 policies aggregating $439,600,574 of insurance, utterly disregarding industrial insurance and that issued by fraternal beneficiary associations.

SPEAKING OF AGENTS.

While no agents are provided by the Fund, permission to take applications is given every State factory inspector, the clerks and treasurers of every county, town, city and village, and every State bank. Besides, any person is authorized to transmit the applications of himself or others to the Insurance Department, for which is allowed the sum of twenty-five cents and a commission of one (1) per cent. on the premium, which, with the medical fee, must be paid in advance.

Such a system obviously cannot be successful. People are not anxious enough to insure. The officials who are authorized to take and transmit applications are not sufficiently interested personally or financially to inspire or incite a rush of business and very few men will go to the trouble, voluntarily, to make out an application, go and be "examined" and send on a draft for the premium.

Healthy men are not keen enough for life insurance to go through all this formula. And there's the rub! The fellow who suspects he cannot *get* old-line life insurance is likely to seek solace in the Fund and adverse selection results.

The agency arrangement under the Fund is unfair. In the first place those who are designated "agents" do not have to procure a license nor pay for the privilege of doing business. On the contrary, old-line agents are obliged to do both and if the General Manager in his official capacity of Insurance Commissioner sees fit, he may refuse to grant a license to any one

of them! Furthermore, this General Manager as Insurance Commissioner can revoke the license of an old-line life agent almost any time, but he cannot revoke the privilege given to Tom, Dick and Harry to write insurance in the Fund, and this, too, in spite of the fact that few of these officials have had experience with life insurance. An election certificate is their unrevokable license to do business!

VIOLATES ANTI-REBATE RULE.

In all seriousness and with necessary formality, the legislature of Wisconsin has written into the statutes a prohibition against any person receiving any compensation for effecting insurance on his own life unless during the preceding twelve months he has effected other insurance with premiums exceeding those on his own risk.

But what does the State Fund say? It says to any person within the State of Wisconsin, Deduct twenty-five cents and one per cent. of your premium, which is equivalent to that much rebate, and send on a draft and your application. And it evades the general law on this and other hampering subjects by including in the statute giving it legal standing the ingenious provision that, "Except as specially provided, the other provisions of law relating to insurance shall not apply to the Life Fund."

Stop to think of this seriously, just a moment. One wave of the legislative hand and all the magnificent laws diligently written into the statutes of the State for the ostensible purpose of restricting, regulating and supervising individually-managed life insurance companies, ruthlessly wiped away in the interest of State management and control!

After all, it does make a difference whose ox is gored, doesn't it?

More might be pointed out in just criticism or friendly ridicule of this Life Fund. This much *has* been written to show the impracticability of creating State Life Insurance without doing grievous injustice to established companies.

If the *State* really wants to insure the lives of its own citizens, it must do so on the same basis, exactly, as old-line companies transact business. It must give or take no advantage. Remember, the *State of Wisconsin* does not insure any one

under its Life Fund; it merely provides a vehicle by which persons may take out some life insurance—such as it is!

SHOULD A STATE ASSUME THE BUSINESS OF LIFE INSURANCE?

On what grounds can a State justify itself for assuming the business of life insurance?

W. F. Gephart, Professor of Economics of the Ohio State University, notes these three:

(*a*) As a desirable source of securing revenue to the State;

(*b*) As a social development activity whereby greater numbers may benefit from an application of the insurance principle; and

(*c*) As a method of completely *regulating* the business, without the primary object either of revenue or of extending its social benefits.

AS TO THE FIRST CONSIDERATION.

(*a*) A State might justify itself for assuming the business of life insurance on the ground that it is a desirable source of revenue.

The Wisconsin Fund violates this principle in that it expressly provides that "the net profits shall be distributed among the *policy-holders*."

Had the *State* gone into the business under the amendments above referred to, the existing law probably would have been changed, but the people of Wisconsin voted strongly—very strongly—against the idea.

This showed pretty conclusively that while the people of a State ordinarily favor plans for raising revenue, particularly by indirect methods, they do not care to risk the credit of the State for possible enormous liabilities. After all, "the people" are pretty level-headed. They showed sound sense as to *State* life insurance in Wisconsin.

Even as a profit-maker to its policy-holders the Life Fund is not impressive. In its early days it would have been a dismal failure had its proper share of actual expense been charged against it. The records show that while the expenses charged on the books of the Fund for the first two years and a half of its existence amounted to only $1,396.24, there was paid out

of the State Treasury, *i.e.*, the General Fund, in its behalf, over $1,600 for printed and mimeograph matter and large sums for other items.

And even with this advantage, an examination by the actuary of the Insurance Department in 1915 led to the withdrawal of a circular issued by that department bragging about alleged *dividends*, for the reason that had proper computations been made and proper expenses charged, there would have been no such dividends. The report says they were "absolutely unwarranted." A splendid recommendation for State control!

But for the purpose of argument, let us assume that a State does go into the business for revenue. Has it an honest right so to do and leave private enterprises, paying heavy taxes and under strong competition, to grope along as best they may?

What will the State do with the "profits"? Put them in the General Fund? That would be unfair unless insurance were made compulsory. Neither ought the State to go into the business without paying its just and equal share of taxes and complying with all other laws and regulations.

AS TO THE SECOND CONSIDERATION.

(*b*) A State might justify itself for assuming the business of life insurance on the ground of social development whereby greater numbers might benefit from an application of the insurance principle.

Let the records speak alike for its friends, its enemies and the Fund itself. After more than seven years of existence it had outstanding on January 1, 1918, a total of 467 policies aggregating $381,200 of insurance. During the year 1917, it issued exactly twenty-one new policies aggregating $21,000 of insurance. During that same year, the Northwestern Mutual Life Insurance Company, another Wisconsin corporation, put upon its books 53,167 new policies covering $160,654,893 of insurance. In the State of Wisconsin, alone, it issued during the year a total of 4,860 new policies representing $12,941,380 of insurance. And the Northwestern is only one of the many level premium companies operating in the State.

Palpably the Wisconsin Life Fund has not extended the "insurance principle" to "greater numbers" than have the

old-line companies, and probably the only way any State could do so would be under compulsion and monopoly.

Buyers of life insurance are little interested in it as a "social development," nor are they concerned with the so-called "insurance principle." They buy life insurance because some one incites them to it, and generally they buy at the lowest net cost. The first cost of life insurance comprehends three elements: mortality, interest and expense. The net cost is the difference between the amount paid for premium and that returned or credited on account of savings and earnings.

We have considered the element of mortality. What about interest? Funds of any State life insuring plan, of course, should be invested as securely as the State requires the funds of other life insurance companies to be, and if the same laws applied to both systems, where would the advantage to the State arise? No sane person would want office-holders to gamble with funds of policy-holders.

The chances are that less interest would be obtained by a State. It has no mysterious power to affect the interest rate, and certainly there are comparatively few expert investment men in office—such men as are employed by old-line companies to spend their exclusive time and talents to the acquisition of good, legal investments, with the entire country as available territory and large funds with which to take advantage of special opportunities. The records show that during the year 1917 the Wisconsin Life Fund earned the lowest net rate of interest, with one small exception, of any domestic company reporting to the Wisconsin department!

And now as to expenses. Frankly, in this respect a State might make a better showing and yet there is ground for doubt. It has been demonstrated by the experience of the Wisconsin Life Fund that a small, puny little corporation cannot be run on comparatively lower expenses than existing old-line companies. Indeed, with the proper expenses charged against it according to its actuary this Fund would have been fifty-two per cent. behind its estimates the first two years and a half of its career. Expenses depend a good deal upon individual management. One Insurance Commissioner might be extravagant and another frugal, and so it is with the officers of old-line companies, but clerical work and other incidental features of a life

insurance business cost about the same in all circumstances. The only difference between the two would be in the salaries of executive officers, and the loss in mortality and interest ought to take care of any difference against the old-line companies. It is probably a fact that no State can save much in necessary expenses and certainly not if the State either remits the taxes of old-line companies—as rightly it ought to do, if it is to be a competitor—or else causes its own Life Fund to pay a like tax.

Furthermore, size has a good deal to do with expenses. The bigger the company the lower the expenses, proportionately. Conducted *really* as a competitive business, any State life fund would have to employ paid agents. The State would not save, therefore, in acquisition cost. As has been said: "Insurance is a service, and not a commodity which can be sold direct from producer to consumer. The individual must be solicited, either to inform him what his duty is or to persuade him to do his known duty. It is a bold venture to attempt at the present stage of insurance knowledge to sell insurance without solicitors."

Any State life insurance fund must stand, therefore, between the devil and the deep blue sea. If it employs no paid agents, it either languishes and becomes as innocuous as the Wisconsin Life Fund, or else it subjects itself to legitimate acquisition costs with no advantage over old-line competitors.

AS TO THE THIRD PROPOSITION.

(*c*) A State might justify itself for assuming the business of life insurance as a method of completely regulating it, without the primary object either of revenue or of extending its social benefits.

But before any State could possibly have the temerity to enter upon any such socialistic plan, it would have to be convinced, as Prof. Gephart points out—

(1) *that* the life insurance business threatens to become a monopoly, characterized by the exercise of oppressive power;

(2) *that* there is unregulated and injurious competition;

(3) *that* private companies represent unduly large concentrations of wealth; and

(4) *that* policy-holders cannot be assured protection by the present system of regulation.

It would insult the intelligence of the average person, perhaps, to explain why existing conditions do not even remotely justify State insurance, but for fear some proposed legislator may get hold of these impressions, perhaps it were well to enter further into the subject.

(1) Under existing laws the life insurance business, as at present conducted, cannot become a monopoly, with, or without, oppressive power. The State of New York, after the investigation of 1905, adopted an act restricting the amount of life insurance the companies doing business in that State may write each year, and since that time life companies have sprung up in every State of the Union, except four, and new companies are constantly forming. The danger is not of monopoly, but of multiplicity.

(2) There is not "unregulated and injurious competition" in the business as presently conducted. Many of the things that formerly characterized injurious competition have been wiped out by statute and practice and in no other business is the competition more strictly regulated. If the time ever comes when competition between life insurance companies gets to be injurious, the probabilities are that legislative genius —now dormant—will be awakened sufficiently to right the grievous condition without State insurance.

(3) Companies now conducting the business of life insurance do not represent unduly large concentrations of wealth. Their assets consist only of such reserve as the law requires them to maintain and a reasonable surplus to cover contingencies. The reserve and surplus must be kept invested as the law specifies and every dollar put into sanctioned securities goes toward the material development of the nation. The funds of life insurance companies cannot be exploited for personal profit and so there can be no harm from such concentration as there is. Owing to existing legal restrictions, concentration cannot possibly go on at an alarming rate.

(4) If policy-holders cannot be "assured protection by the present system of regulation," what are they to do when the State assumes the business? It has full power at present to

compel all companies to be just as "protective" as it proposes to be, so what reason is there to expect a change in status if the State assumes control?

A review of the Wisconsin situation impels the opinion that in no particular has the State justified its entrance into the life insurance business. Its first manager and putative parent has endeavored to do so on other than the reasonable grounds outlined by Prof. Gephart. He urged in behalf of the Wisconsin Life Fund that it is sound; that the element of profit is done away with; that it is to be conducted on the same basis as old-line companies; that it brings home an understanding of insurance; that it gives the assured an added interest in the honesty and efficiency of his State government; that it will increase confidence in life insurance, encourage the extension of its service and increase the business of sound companies and societies.

For those who are receptive, it may be noted that the Fund is not necessarily sound right at this moment, although candor and justice prompts one to say that the present Insurance Commissioner-General Manager, who inherited the irritating institution, is trying hard to make it so. It may take him and his successors many years to succeed, and again they "may be forever."

The "element of profit may be done away with," possibly because it does not exist. Surely the early sponsors for the Fund had to force the "profits" a little to make them at all impressive.

If State insurance is to be conducted on the *same* basis as old-line companies are conducted, how can it excel? Surely not through the necromancy of a certificate of election.

That any State fund would "bring home an understanding of insurance," is not readily conceivable. Prof. Gephart and other authorities state that it is "very questionable if any permanent or widespread education would result from the mere fact of State insurance."

Why would State insurance give "the assured an added interest in the honesty and efficiency of his State government"? As Prof. Gephart pertinently asks: "Should a policy-holder feel any more interest in the honesty and efficiency of the State official who assessed, collected and spent his tax?"

The Wisconsin State Life Fund, at least, has yet to demonstrate that it "will increase confidence in life insurance" or "encourage the extension of its service." It has had now seven and a half years of opportunity and has done neither.

That it may ultimately "increase the business of sound companies and societies" may be adopted as the one genuine piece of lucidity offered in its behalf.

There are a few little constitutional questions which properly might be urged in connection with this paper, but why be unduly cruel? Some folks, right now, think the Fund is moribund. I don't—I think it is just *asthmatic!*